Principles for Responsible Investment

VOL. 11

PRI ACADEMIC RESEARCH

RI QUARTERLY

PROXY SEASON 2017

IN THIS ISSUE

The PRI Academic Research programme aims to engage and inform signatories and responsible investment practitioners with academic research that analyses current thinking and future trends, provides practical recommendations and is thought-provoking.

Contact: academic@unpri.org

The RI Quarterly extracts the essentials and distils key findings from research in a clear and concise manner for investment professionals.

EDITOR: Elizabeth Mills is a freelance researcher, writer and editor, and has worked with the PRI since 2015. Previously, she held positions at IHS Global Insight and Control Risks. She has an MA in International Relations.

Follow the PRI Initiative on

INTRODUCTION

BACK

At the time of writing, the global community is still catching its breath after US President Donald Trump confirmed he would pull the US out of the Paris Agreement. While it goes without saying that the PRI is disappointed about the decision, we firmly believe that climate change momentum will continue and that investors will carry on being vocal and active on the issue.

And the investor voice is well and truly in the spotlight in this edition of *RI Quarterly* as we focus on proxy season.

First up, we examine the ExxonMobil climate vote, which passed with 62% of shareholders in favour of a proposal on transitioning to a low-carbon economy. It's expected to usher in a sea change, both in terms of shareholder engagement and the attitude of big companies towards climate disclosure. We spoke to three of the biggest and most influential co-filers of the resolution before the AGM about their motivations, the outlook for climate disclosure and why it's important to investors in their attempts to better understand the potential risks and opportunities in their investments.

Alongside this, we analyse proxy access with an op-ed from Mike McCauley, senior officer, investment program and governance at Florida SBA. Mike explains the recent shift in the US, which has seen proxy access resolutions receive broad shareowner support, making them the largest proportion of resolutions.

We take in board diversity next. It has been six years since the UK's Davies report set a target of 25% female participation in FTSE100 and FTSE250 boards. Multi-year research *Opening the Black Box of Board Appointments* follows the fortunes of 30 male and female executives in their attempts to secure a seat as non-executive directors. It's a fascinating report that reveals a lot about the different approaches that men and women both employ, but also have available to them, as they climb to the very top of the corporate ladder. It throws up key questions about diversity, the opacity of high-level hiring, and the need for broader talent management.

Talking to us about some of these issues are two leading female voices in the world of women and leadership; the report's co-author, Professor Elisabeth Kelan, named among *HR magazine*'s most influential thinkers, and to discuss gender issues more widely, Professor Susan Vinnicombe who was a member of the Davies Steering Committee (2010-2015).

Executive remuneration is also under the microscope. We look at Say on Pay around the world in terms of its take up and impact.

Finally, we're delighted to highlight the new members of the PRI's Academic Network Advisory Committee who discuss the key challenges in responsible investment.

You may have also noticed that *RI Quarterly*'s publishing model has changed. We now release a series of topical articles regularly that are accessible online and on mobile and brought together at the end of every quarter into this magazine format. This gives you the choice of how you would like to stay up to date with news, insights and opinions from thought leaders.

I hope you enjoy this edition!

Katherine Ng
Head of Academic Research

CLIMATE DISCLOSURE – WHAT DOES THIS YEAR'S EXXONMOBIL RESOLUTION TELL US?

BACK

Author: Sagarika Chatterjee, Associate Director, PRI, RI Quarterly, 24 April 2017

In this article, we examine climate disclosure through an in-depth look at the upcoming ExxonMobil climate disclosure resolution. We highlight why PRI signatories are pressing hard for climate disclosure and why it presents fertile ground for the PRI Academic Network.

The US government's position on climate change is influencing the global policy agenda. This was evident in the March 2017 G20 Finance Ministers and Central Bank Governors' meeting in the lead up to the July G20 Leaders' Summit. The G20 Finance Ministers and Central Bank Governors failed to reaffirm free trade and climate change action – previously both key priorities for the G20. Irrespective of politics, investors continue to pursue climate disclosure so that they can better understand potential risks and opportunities in their investments.

WHY INVESTORS CARE ABOUT CLIMATE DISCLOSURE

Meaningful company disclosure on climate change matters. Without it investors cannot assess and manage material climate-related risks and opportunities. For low-carbon investments such as green bonds, disclosure on the use of proceeds is essential to investor confidence; investors need to know that such investments offer genuine environmental benefits. For fossil fuel investments, disclosure helps investors to understand how a company is positioned for the transition to a low-carbon economy with risks including impaired profitability and stranded assets.

On one level, climate disclosure should be straightforward; if companies are already managing climate-related risks and opportunities, why can't they just tell investors? Surely it is easy to tell investors what they are doing now and may do in future.

But on another level, climate disclosure is complicated. Challenges for companies include whether such disclosure should be within regular financial filings, sustainability reports or ad hoc publications; lack of consensus on sector metrics; and no standardised disclosure practice for future, long-term climate-related risks and opportunities.

> The recent investor victory at the Exxon resolution – with 62% of shares voting in favour of a proposal on transitioning to a low-carbon economy – is unprecedented. Not only does it show the impact active ownership can have on company profitability, but its implications for a smooth transition are huge. This marks a real turning point on meaningful company disclosure.

WHAT IS ARTICLE 173?

Article 173 of the French Energy Transition for Green Growth Law came into effect on 1 January 2016. It sets out a roadmap to mitigate climate change and diversify the energy mix. It marks a turning point in strengthening mandatory carbon disclosure requirements for listed French companies and institutional investors. See report: French energy transition law: Global investor briefing.

FUTURE DIRECTION OF CLIMATE DISCLOSURE: THE FSB TASK FORCE

Investors need forward-looking, consistent disclosures from companies so that they can assess and manage climate-related risks and opportunities in their portfolios. The FSB Task Force on Climate-related Financial Disclosures released its draft recommendations in December 2016 and its final report is due in July. Broadly, the recommendations are that companies disclose on assessment and management of climate-related risks and opportunities. The recommendations focus on governance, strategy, risk management, and metrics and targets. Supplemental guidance is provided for sectors and on scenario analysis. The guidance on disclosure of scenario analysis includes a 2 degree scenario.

If companies, insurers, banks and investors adopt the Task Force's recommendations, the climate disclosure landscape could change dramatically. Investors would finally have the information they need to better-position their portfolios for an energy transition. Shareholder resolutions calling for climate disclosure could one day become a thing of the past.
For more see: https://www.fsb-tcfd.org/

Globally, investor interest in climate disclosure is high with:

- more than 130 ratifications of the Paris Agreement, although there are concerns about continued support from the US and other countries such as Saudi Arabia then retreating;
- persistent shareholder concern about inadequate corporate disclosure manifested in multiple resolutions;
- mandatory environmental disclosure under development in China;
- ESG reporting recommendations from the London Stock Exchange;
- Article 173 covering companies and investors in France;
- the final Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures report, convened by Mark Carney, due to be presented at the G20 Leaders Summit, in Germany in July.

EXXONMOBIL SHAREHOLDER RESOLUTION FOR 2017 ANNUAL GENERAL MEETING

Item 12 – Report on Impacts of Climate Change Policies

RESOLVED: Shareholders request that, beginning in 2018, ExxonMobil publish an annual assessment of the long-term portfolio impacts of technological advances and global climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyse the impacts on ExxonMobil's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2 degree target. This reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond, and address the financial risks associated with such a scenario. Source: https://www.ceres.org/investor-network/resolutions/exxon-2-degrees-scenario-analysis-2017

UNFINISHED BUSINESS – THE EXXONMOBIL CLIMATE RESOLUTION

The lead proponent of the ExxonMobil resolution in 2017 is the New York State Comptroller, with the group of filers including the Church Commissioners and CalPERS. Last year there was a 38% vote in favour of a climate change proposal at ExxonMobil's AGM. Notwithstanding this and intensive investor engagement with the company, ExxonMobil has not disclosed or committed to disclose climate scenario analysis. So this year, the filers of the resolution are looking for a majority vote. They want fellow shareholders to be clear that they want the same disclosure from ExxonMobil as they asked for at votes at BP and Shell in 2015, and as recommended by the FSB's Taskforce on Climate-related Financial Disclosures (TCFD).

WHAT DO THE EXXONMOBIL RESOLUTION FILERS WANT AND WHY?

Below we provide views from the lead proponent of the filing group, New York State Comptroller and co-filers of the resolution, the Church Commissioners for England and CalPERS. They argue that better climate disclosure from the company is needed to enable investors to assess risk and protect their investments.

Principle 2 of our six Principles states that signatories will be active owners and incorporate ESG issues into their ownership policies and practices. As such, we are disappointed when climate resolutions do not win enough support from our signatory base. Asset owners need to have oversight of their managers' voting and engagement records. The PRI is actively engaging signatories on climate disclosure, including on this resolution. We also discuss engagement strategies in Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring.

LEAD PROPONENT, THOMAS P. DINAPOLI, NEW YORK STATE COMPTROLLER

As the lead proponent of the filing group, what outcome do you want from this year's climate disclosure resolution at ExxonMobil?

We want ExxonMobil to be responsive to its shareholders' concerns that climate risk is a significant investment risk. It's vital that the company candidly analyse its portfolio and operations in light of the two-degree scenario goal agreed upon at the UN Paris Conference in 2015. As shareholders, we have a right to know how the company will adapt to a changing regulatory landscape.

> "As shareholders, we have a right to know how the company will adapt to a changing regulatory landscape."
>
> Thomas P. DiNapoli

Why does voting for this resolution matter to all PRI signatories with holdings in ExxonMobil? Why can't signatories afford to abstain or only engage privately?

PRI signatories have made good faith commitments to responsible investment principles that address environmental and social concerns. Addressing climate risk is a direct extension of that commitment.

The Board of ExxonMobil recommends that investors vote against the proposal, arguing that: "We remain confident in the commercial viability of our portfolio." What is your view of the company's response?

It is essential that the company analyse and report back to shareholders on the two-degree scenario. Ignoring this goal makes no sense post-Paris, when there is a global commitment to meet it.

The company already argues that it adequately addresses climate risk through its current reporting policies, but we believe that it clearly has to do more to properly inform investors about the climate-related challenges that it will face in the coming decades.

The company needs to at least recognise the possibility of that goal being achieved, analyse its impact and share that analysis with its shareholders. The New York State Common Retirement Fund has already conducted stress-test analyses of the impact of various climate change scenarios, including the two-degree scenario, on our portfolio and we made the findings public. In my opinion, there's no reason Exxon, with all of its resources, cannot do the same.

How does this resolution fit within your corporate governance work, other resolutions and your investment in climate-related opportunities?

We have long been active in addressing a wide range of environmental, social and governance (ESG) issues affecting our portfolio. The size of our fund has allowed us to have a good degree of success in bringing about improvements in corporate behaviour. I have a fiduciary responsibility as a trustee of a $186 billion fund to assess risk to our investments. Some of those risks are environmental and social that companies would prefer not to address. It's my job to make sure they do, whether that's asking Exxon to address the two-degree scenario's impact on its business or asking Chevron to hire a director with environmental expertise.

ESG factors are integrated into our investments as well. We have committed more than $5 billion to sustainable investments, including a $2 billion Low Emissions index. The Low Emissions index has a carbon footprint 70% lower than our regular equities index, but is designed to perform very closely to it, so there's minimal tracking error. The best part is that it's scalable, so we expect to commit additional funds to it as performance allows.

CO-FILER, EDWARD MASON, HEAD OF RESPONSIBLE INVESTMENT AT CHURCH COMMISSIONERS FOR ENGLAND

You already have a very clear overall public position on climate change. Is the resolution relevant to asset owners that do not have a position on climate change or that may lack beneficiaries sympathetic to it ?

The resolution is relevant to all asset owners who want their investment in ExxonMobil to be financially rewarding. It is indisputable that ExxonMobil's resilience to the transition to a low-carbon economy will be a very significant driver of future profitability.

ExxonMobil seeks energy access for the world's poorest. Does better corporate climate disclosure conflict with developing country goals?

The world's development agencies are clear that dangerous climate change will hurt the world's poorest hardest. The more the world's largest companies engage with the goals of the Paris Agreement – including the 'well below 2 degrees' goal – the better off the world's poorest will be.

"The more the world's largest companies engage with the goals of the Paris Agreement – including the 'well below 2 degrees' goal – the better off the world's poorest will be."

Edward Mason

ExxonMobil just added an environmental expert to its board; doesn't this mean that the company is very likely adequately assessing climate-related risks and opportunities?

Certainly we hope that the appointment of an atmospheric scientist, Dr Susan Avery, to ExxonMobil's board will enhance the company's ability to manage climate risk and opportunity. But if ExxonMobil doesn't disclose its resilience to different climate change scenarios, investors will be none the wiser.

Can the present incumbents, such as ExxonMobil, adapt fast enough to technological advances and disruptive new technologies?

ExxonMobil and its peers are all increasingly focusing their portfolios on gas and lower cost oil, but the extent to which they are playing in renewable energy, biofuels and carbon capture and storage varies. This is to be expected; there are different routes to resilience in a lower carbon world. But if investors are to be able to evaluate potential risks and returns associated with different approaches, scenario analysis is essential.

CO-FILER, ANNE SIMPSON, INVESTMENT DIRECTOR, SUSTAINABILITY, CALPERS

Why are you seeking disclosure on scenario analysis for oil and gas reserves and resources, including for a 2 degrees scenario?

Scenario analysis on climate change is important because it allows for the complexity and uncertainty that companies and investors face. We need to see that companies have stress tested their assumptions against the goals of the Paris Accord, which includes a target of ultimately limiting global temperature rise to no more than 2 degrees centigrade. The current round of commitments in the Paris Accord rolls up to something around 3 degrees, and has embedded in the text, an aspiration to bring the target down to 1.5 degrees. We think it makes sense for companies to model their strategy for resilience within these ranges so that we can be sure that capital expenditure, risk management, and even, executive compensation is tied to viable long-term options.

Is it reasonable to expect US companies to respond to climate change if the US administration is considering pulling out of The Paris Agreement?

The US political position on the Paris Accord will not alter the science around climate change. If the US pulls out, sea levels will still continue to rise. Companies with coastal properties or assets will need to address these risks, regardless of the administration's position. The science is increasingly reflected in the economics. Science plus economics is a powerful combination for driving business decisions. We also see that the momentum behind the Paris Accord continues to be strong, and US companies operate in global markets. It's notable that Exxon issued a statement in support of the Paris Accord, on the day it came into effect, which was the same week as the US election. That's a sign of the business logic behind Paris.

If companies provide the information you want, how will you use it in your investment decisions? Will you view company management more favourably or reallocate capital based on such disclosures?

Disclosure on climate change has been improving in recent years. However, in both quantity and quality it is lacking. For that reason, investors have not been able to use the scattered data in an effective manner. An example is carbon footprinting. When CalPERS signed on to the PRI's Montreal Pledge, we were only able to find carbon emissions data for less than half of our portfolio of 11,000 companies. The new FSB Taskforce recommendations on climate risk and opportunity reporting will change this. Their framework requires reporting on governance, strategy, risk management, metrics and targets, including scenarios to include the 2 degrees Paris Accord goal. The constraint will be the lack of mandatory requirement, so it will be up to investors to request and require that companies use the Taskforce framework, and for regulators to integrate this into required filings. With this new flow of information, investors will be in a position to assess the climate competence of company boards, the robustness of strategy, rigour of risk management, and the value of scenarios presented. Such information will drive both capital allocation and stewardship decisions, which in turn will bring financial markets to full force in the transition to a low carbon economy.

How do you see asset owner and manager voting on climate disclosure resolutions in relation to implementation of the six Principles?

The rise of shareowner proposals on climate change, particularly in the US, reflects investor concern with risk and opportunity for the long term. It also reflects the poor level of current reporting.

There are encouraging signs of the impact that investor voting can have. Chevron has produced its first detailed report on climate risks, following historic levels of support for a proposal last year. Exxon has appointed its first climate scientist to the board, following shareowners winning a proposal to allow long-term owners to propose candidates. Conoco Phillips saw a shareowner proposal withdrawn after successful negotiations with the proponents.

Major funds like CalPERS are now engaging, co-filing with other investors, and carrying proxy solicitations to engage fellow shareowners and call for their support. Last year this rise in investor activity led to an overall doubling of votes in support of climate risk reporting. Key to those results was new interest and support in the investment management community. State Street Global Advisers updating its own voting guidelines to give support to 40% of climate risk proposals. Others, like BlackRock, have signalled their commitment to engaging companies on climate risk reporting, although they do not typically vote in support of these proposals.

We do see them increasingly holding boards accountable, notably voting against two directors at Exxon last year, as a concern that the company policy does not allow shareowners to engage directly with board members. Investors are increasingly working across borders to jointly engage companies, which will provide the ultimate solution to the collective action challenge that has stymied engagement in the past. This is where the PRI network is invaluable, as investors come to the table with a shared commitment to the 6 Principles.

"Investors are increasingly working across borders to jointly engage companies, which will provide the ultimate solution to the collective action challenge that has stymied engagement in the past."

Anne Simpson

1 http://www.carbontracker.org/report/expect-the-unexpected-disruptive-power-low-carbon-technology-solar-electric-vehicles-grantham-imperial/

2 http://uk.reuters.com/article/us-china-energy-renewables-idUKKBN14P06P

BETTER CLIMATE DISCLOSURE IS INEVITABLE

Global investors are savvy; they can see that climate policy may be reversed in the USA, but overall the energy transition will move forwards. Technological innovation impacts significantly on falling costs and the pace of transition. According to the Carbon Tracker Initiative, the cost of solar has fallen 85% in seven years and solar could supply 29% of global power generation by 2050, phasing out coal and leaving natural gas with a 1% share. Electric vehicles could make up two thirds of the road transport market by 2050, displacing 25 million barrels of oil per day[1]. China is already leading in green bonds and will invest $360 billion in renewable energy, creating 13 million more jobs by 2020[2]. To make sense of material risks and opportunities associated with energy transition, investors need decision-useful information from companies. This is a sensible, moderate and reasonable investor requirement.

We therefore see two possibilities for the 2017 ExxonMobil resolution; higher global investor support compared to last year or the same level of support. Given investors want climate disclosure for good reasons, the PRI expects record high global investor support for the 2017 ExxonMobil resolution. In other words, this is the year that ExxonMobil will need to demonstrate how it responds to a reasonable global investor request on climate disclosure.

THE PRI'S FUTURE WORK: CLIMATE DISCLOSURE WILL BE A PRIORITY

In response to investor interest, the PRI's Collaboration Platform now enables investors to consider and pre-declare votes on upcoming climate resolutions. The PRI will shortly publish an RI Blueprint, its ten-year strategy for responsible investment, prioritising active ownership and climate change. In September 2017, at the annual PRI in Person conference, a new project will be launched to accelerate implementation of the FSB Task Force recommendations. In March 2018, the PRI Reporting Framework will be modified to enable investor disclosure on assessment and management of climate change.

CALL TO ACTION FOR ACADEMICS

GET IN TOUCH WITH YOUR RESEARCH IDEAS

Investors' immediate focus is the final FSB Task Force report and the upcoming ExxonMobil and Chevron Corporation resolutions, but climate disclosure presents opportunities for longer-term academic research. The PRI is interested in examining the following research areas:

- Does active ownership on climate disclosure result in more meaningful strategic responses from boards on climate change?
- Does better disclosure lead to further reallocations of capital by companies within their balance sheets, such as investing in renewables or other low carbon technology?
- What are appropriate investor metrics for transitioning to a low carbon economy?

Please contact the PRI with:

1. A brief research idea – how it addresses the question(s) above, including the broad methodology (450 words). Please note that PRI is seeking a global outlook with a North American case study/studies
2. How it is placed as a contribution within the literature and practice thus far (300 words)
3. What the benefit is to the PRI and investors (200 words) Deadline: 31 August 2017. Send to: academic@unpri.org

AS PROXY ACCESS IN THE US SPIKES AT 52%, HAVE WE REACHED A TIPPING POINT?

BACK

Author: Michael McCauley, Senior Officer—Investments Programs & Governance, Florida State Board of Administration (SBA)

Proxy access resolutions have received broad shareowner support and represented the largest proportion of resolutions since 2015. As a result, a dramatic number of companies has moved to implement some form of proxy access, typically adopting the US market standard of 3% share ownership and three-year holding period.

The explosion in proxy access resolution submissions has directly influenced the level and quality of corporate engagement, as well as the dialogue surrounding director elections. This has resulted in numerous companies unilaterally adopting reasonable forms of proxy access, with management-sponsored access items put before investors for approval. Along with several governance features among large capitalisation firms in the US, proxy access is now in place at 52 % of S&P500 companies. This is impressive given that it did not exist in the early 2000s.

UNDERCUTTING PROXY ACCESS

A few companies, however, continue to oppose facilitating shareowner-nominated board candidates. And some enact more restrictive forms that lack one or more components, despite majority support from investors. A small number of companies have included limitations on investors' abilities to nominate certain types of directors (e.g. prohibit past nominees from being nominated again) and other advanced notice or nominee queuing restrictions. This serves to undercut the effectiveness of proxy access and may substantially reduce its use in the future.

Alongside this, some firms have even attempted to dissuade their shareowners from supporting proxy access proposals. They typically argue there is no need for proxy access because of its perceived costs, concerns surrounding plurality voting, or a general shift away from a board-centric nomination framework.

Proxy access is now in place at 52% of S&P500 companies. Impressive given it didn't exist in the early 2000s

Many companies also point to recent improvements in their governance practices to minimise the need to adopt proxy access, with most citing their move away from classified boards of directors, adherence to majority voting standards for uncontested director elections, and/or strengthening compensation incentives and related policies.

PROXY ACCESS AS A SPECIAL INTEREST?

The board of directors serves shareowners and because proxy access provides shareowners with the ability to have a choice of representatives, such governance mechanisms should be encouraged. In practice, the choice of director candidates has only come when the problems with a company's board and management vastly outweigh the cost of an expensive proxy contest with one or few owners footing the bill. Reflecting the fact that the number of investor-nominees is limited to a short slate (almost always less than three directors and 25% of the full board), a 'special-interest' candidate isn't likely to win a seat on the board unless a majority of voting shareowners supports them. By definition, any director receiving greater than a majority level of support can't be viewed as serving a limited or special interest constituency.

THE UNCERTAIN FUTURE OF PROXY ACCESS

For all the corporate adoption and investor resolution activity, there remains an outstanding risk that proxy access won't live up to the hype. For example, how will shareowners use proxy access? Which investors will play a part: activist hedge funds, long-only institutional investors, retail investors, or a mixture? There isn't much to help suggest an obvious answer to these questions.

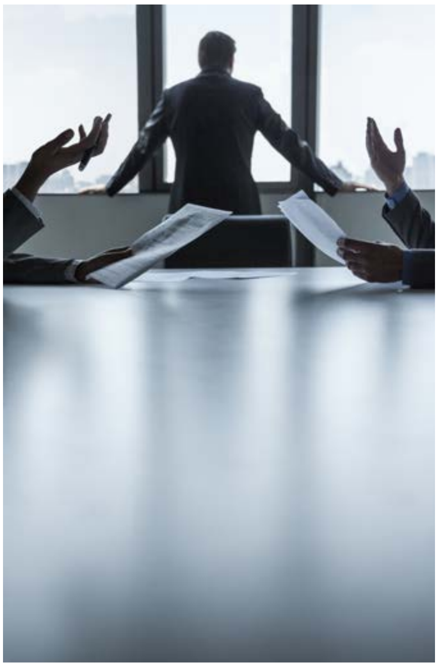
Complicating the situation further, legal challenges from both the corporate and investor sides are almost certain given the lack of precedent, myriad moving parts and multiple requirements.

On 10 November 2016, Gamco Investors attempted to use a proxy access mechanism to nominate a board member at National Fuel Gas Co., ostensibly the first triggering of the director nomination protocol within the US equity market. A shareowner with a 7.8% stake in the company, Gamco's CEO was quoted saying: "We are doing it [nominating a director] on a very friendly basis and only asking for one director." National Fuel had formulated and adopted a proxy access bylaw in March 2016 that allowed investors owning at least 3% of the outstanding shares for three years or longer to nominate up to 20% of the board of directors. Under the bylaw, shareowners must make certain representations and warranties including: "that an Eligible Stockholder: (i) acquired the Proxy Access Request Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and does not presently have such intent..."

Ultimately, National Fuel rejected the Gamco director nominee because it did not comply with the terms and conditions set forth in the bylaws. As noted by corporate governance researcher Paul Hodgson, the issue of "intent to change or influence control" is very well defined, and "it means where a shareholder has the intent of effecting a sale of most of the company's assets or where there is a contested director election". Gamco's statement did cite an investor resolution to spinoff one of National Fuel's businesses. Dating back to 2011, Gamco previously submitted 13D regulatory filings indicating an intent to possibly influence the firm's management decisions. Some market observers viewed Gamco's efforts as more akin to a proxy contest than the true use of proxy access.

Although somewhat anecdotal, the National Fuel experience may be prescient and indicate a larger pattern for activist hedge funds in the future, leading most to maintain their preference for traditional proxy contests. This may be particularly true given the disproportionate role for settlements between activist investors and the boards that they target. For other institutional and retail investors, a more collaborative and structured approach may be needed to inspire the use of proxy access.

The sharp increase in proxy access adoption may well prove to be at a tipping point in the election of directors, but at this point remains an unproven governance feature within the US market.



PRI ACADEMIC NETWORK ADVISORY COMMITTEE

BACK

SPOTLIGHT ON NEW MEMBERS

The PRI is delighted to welcome the following new members to the Academic Network Advisory Committee. They bring a wealth of expertise from finance, management, strategy, corporate governance, and RI and financial performance from academia, industry and education.

DIANE-LAURE ARJALIÈS

Assistant Professor General Management, Managerial Accounting and Control & Sustainability Ivey Business School, Western University, Canada

Diane-Laure aims to push the boundaries of knowledge by investigating the latest social innovations in finance and accounting. Over the past decade, she has studied the emergence of responsible investing, impact bonds, carbon accounting, integrated reporting and local and complementary currencies.

She has recently been appointed by the French Ministry for Finance and Economy to the Scientific Committee of the French SRI label. She is also a board member of the French Social Investment Forum and a Jury member of the FIR-PRI Finance and Sustainability Awards.

WHAT ARE THE KEY CHALLENGES IN RI?

I think that the key challenge for RI is to be able to move the entire investment chain towards sustainability. To enable a systemic change of the financial system, changing the practices of investment managers and institutional investors is not enough – although it is essential. Beneficiaries, financial advisers, credit rating agencies and public and educational bodies (among others) should join the conversation too.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

The Academic Network and the PRI's wider research programme play an essential role in the field of RI. It raises awareness around these topics and give legitimacy to the researchers who conduct such research. When universities realise that such a network exists, they come to realise that the topic is worth investigating and teaching.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

If I could help transform the financial education of the forthcoming generations on these topics, I would be happy!

FABRIZIO FERRARO

Professor of Strategic Management IESE Business School, University of Navarra

Fabrizio received the IESE prize for Excellence in Research in 2005 and the Best Paper Award from the Academy of Management Review in 2006. The European Research Council supported his research on responsible investing with a five-year grant (2011-2015). He has served as a member of the editorial boards of a number of journals, and his work has been published in journals including *The Academy of Management Review, Academy of Management Journal, Organization Science*, and *Organization Studies*.

WHAT ARE THE KEY CHALLENGES IN RI?

I believe that RI faces a host of complex organisational changes as high-level policies translate into strategic choices. These will require changes in the way that asset managers are organised, how they compensate people, and how the whole process works. I view this as being a potentially industry-defining moment, especially for asset managers. How they respond to these challenges will shape the future of the industry for years to come.

I am particularly interested in the challenges that different players (asset owners, asset managers, research providers) face as they start implementing RI policies in their organisations. My current work is focused on the practice of shareholder engagement, and the potential that it may have to fundamentally change the way we think about the role of shareholders and, ultimately, our theory of the firm.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

To date, the Academic Network has done a great job of fostering research on responsible investment in the academic community, improving both the quality and legitimacy of research on the topic.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

One of the key challenges for academic research is still access to companies and high-quality data. I hope that the Academic Network might play an important role in enabling more collaboration between academics and practitioners, thereby contributing to producing more impactful knowledge for the field.

CAROLINE FLAMMER

Assistant Professor of Strategy and Innovation Questrom School of Business, Boston University

Caroline specialises in corporate sustainability, CSR, and sustainable finance. Caroline was awarded the 2015 Alliance for Research on Corporate Sustainability (ARCS) Emerging Scholar Award. She is also the recipient of several other awards including the 2013 Moskowitz Prize for Best Paper in Socially Responsible Investing, the 2015 French Social Investment Forum-Principles for Responsible Investment (FIR-PRI) Award for Best Published Paper in Finance and Sustainability, and most recently the 2016 Investor Responsibility Research Center (IRRC) Institute Research Award.

Her work has been published in journals such as the *Academy of Management Journal, Management Science*, and the *Strategic Management Journal*.

WHAT ARE THE KEY CHALLENGES IN RI?

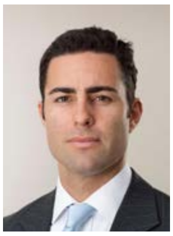
For me, the key challenges are understanding the causes of corporate short-termism and which corporate governance mechanisms are effective in fostering a longer-term orientation and RI.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

They can explore key challenges faced in RI, conduct practice-relevant and rigorous research, share its key findings and expertise with the RI community and business in general, and incorporate findings into teaching material to shape the minds of future business leaders.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

In my research, I examine how corporate governance can help foster a longer-term orientation and the investment in long-term strategies such as stakeholder relations and innovation. In particular, by providing executives with long-term incentives, or tying their compensation to CSR performance, shareholders can align managers' interests with long-term value creation.



BRADLEY JONES

Senior Financial Sector Advisor The International Monetary Fund (IMF)

In this role, he serves as Course Director for Investment Management at the IMF's Institute in Asia and the Middle East, where he advises sovereign wealth funds, public pension funds and central banks on the management of their investment and liability portfolios. He also leads the IMF's risk-based surveillance of the asset management industry in key European centers, and has advised numerous governments on the sustainable development of their capital markets and institutional investment industry. Bradley is also a fellow at the Cambridge Judge Business School Center for Endowment Asset Management.

WHAT ARE THE KEY CHALLENGES IN RI?

Much of my work has focused on the role of institutional frictions in thwarting the efforts of strategic asset owners to embark on long horizon investing. That John Maynard Keynes was writing of similar constraints when at the helm of the Cambridge Endowment some eight decades ago, should give a sense as to how difficult these issues can be to overcome.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

Surprisingly, it is only in more recent times that researchers have begun to quantify the debilitating impact that excessively short time horizons and poor governance practices can exert on both investment and broader societal outcomes. I believe that the Academic Network has a pivotal contribution to make in advancing this frontier, as well as articulating a framework to help investors convert the aspiration of RI into tangible action.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

Reflecting my current work and as a former investment manager, I am very much looking forward to contributing to the agenda of the committee.

BOBBY LAMY

Head of Practice Analysis and Curriculum Design CFA Institute

Bobby's responsibilities include identifying the competencies required of investment management professionals and designing curricula for the CFA Program and CIPM Program.

WHAT ARE THE KEY CHALLENGES IN RI?

The primary challenge facing the RI industry is the lack of trust that clients have in investment professionals. This trust deficit reflects behaviours that are inconsistent with serving clients' needs and promoting fair markets. Fundamentally, this stems from an incomplete understanding of the challenges to integrating responsible investing within the traditional investment decision-making process.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

The Academic Network will play a pivotal role in raising awareness of responsible investing, influencing the direction of future research, and providing practical guidance to investment management professionals.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

I welcome the opportunity to support the PRI's objectives as a member of the Academic Network.

SEBASTIEN POUGET

Professor of Finance Toulouse School of Economics

Sebastien is also the director of the Chaire FDIR, the Sustainable Finance and Responsible Investment research centre. His research into behavioral finance focuses on market inefficiencies and investors' motivations.

WHAT ARE THE KEY CHALLENGES IN RI?

In my opinion, two important challenges that face RI are short-termism and the valuation of externalities. Short-termism is widely discussed, but is difficult to identify empirically. It can have a major impact on the incentives of investors and firms to act responsibly and on the appropriate design of financial regulations. The valuation of externalities that firms impose on society is also one of the central tenets of RI, and responsible investors would like to have a clear view as to how to value such externalities. Unfortunately, such a view is often missing.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

The Academic Network is playing a very important role because it fosters the creation and dissemination of knowledge on these issues.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

I hope that I will be able to contribute to this beneficial action by promoting research that will help better understand the incentive mechanisms (both implicit and explicit) that drive firms and investors towards more responsible practices.

MICHAEL VIEHS

Manager, Engagement and Research, Hermes Investment Management (EOS)

Michael is responsible for corporate engagement on ESG and strategic issues, as well as for producing research on responsible investing. He is the sector lead for automotives and has additional responsibility for developing a consistent and stringent proxy voting policy and corporate governance principles for the German market. Michael is also an honorary research associate at the University of Oxford's Smith School of Enterprise and the Environment. Before his appointment at Hermes EOS, he was research director at the Smith School.

Michael's work on responsible investment, corporate governance, and stewardship has been published in Corporate Governance: An International Review and Annals of Social Responsibility. He has also co-authored From the *Stockholder to the Stakeholder - How Sustainability Can Drive Financial Outperformance*, and contributed a chapter on active ownership to *Re-Imagining Capitalism*, Oxford University Press.

WHAT ARE THE KEY CHALLENGES IN RI?

All actors in the financial industry need to more systematically address sustainability. Following the global financial crisis, trust in the financial system, and capitalism more broadly, was badly damaged. To restore this, I think that all actors in the financial and economical eco-system need to take into account sustainability topics.

WHAT BENEFITS CAN THE ACADEMIC NETWORK AND THE PRI'S WIDER RESEARCH PROGRAMME BRING RI?

The Academic Network bridges the gap between academic research and the financial industry. The financial industry needs more academic research showing the benefits of sustainable or long-term investing, and not just in financial terms. Reflecting this, I think the Academic Network will help steer the discussion between academics and practitioners, and in doing so, can embrace the need for the incorporation of sustainability issues into the investment decision-making process.

WHAT YOU WOULD LIKE YOUR CONTRIBUTION TO BE TO THIS WORK AND WHAT WOULD YOU LIKE TO BRING TO OUR PROGRAMME?

By training, I am an academic researcher, and reflecting this I hope to contribute by sharing my dual experience as a researcher and practitioner. The dialogue between the investment industry and researchers is important in identifying gaps in the literature and to help make academic research more meaningful for investment professionals. Through our work in the network, I hope we can motivate young scholars to start a career in responsible investing, be it on the research or investment side.

PRI Principles for Responsible Investment

PRI ACADEMIC NETWORK

CONFERENCE 2017

In collaboration with Universität Hamburg DER FORSCHUNG | DER LEHRE | DER BILDUNG

The PRI is proud to collaborate with the University of Hamburg for the ninth Academic Network Conference. We are delighted to announce that the conference will once again be a part of PRI in Person and will be held on 26-27 September at the InterContinental Berlin.

With a membership of over 2,000 academics, investment practitioners and policymakers, the Academic Network represents a diverse array of research interests from around the world.

The conference focuses on the latest RI research practices. It is for academic researchers in the SRI SRI and will also be an opportunity for academics and investors to engage with each other, learn and discuss the latest insights. The conference will begin with a networking event on the 26 September.

The conference is led by Alexander Bassen who is a professor of capital markets and management and head of the center for a sustainable university at the University of Hamburg, Germany.

He is a member of the German Council for Sustainable Development – advisory body of the German Federal Government; Vice-chair of the PRI Academic Network Advisory Committee; member of the Commission on Environmental, Social & Governance Issues (CESG) of the European Association of Financial Analysts Societies (EFFAS), and member of the advisory panel for sustainability of Deutsche Asset and Wealth Management (Deutsche Bank). Alex's research interests are responsible investment, corporate governance, and sustainability reporting.

PRI Academic Network Conference

26-27 September 2017 - InterContinental Berlin

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OPENING THE BLACK BOX OF BOARD APPOINTMENTS – WOMEN'S AND MEN'S ROUTES TO THE BOARDROOM

BACK

A chance encounter in the audience during a talk from the US former secretary of state, Madeleine Albright, motivated a group of women to combine their formidable research skills and networks and produce a new report, Opening the Black Box of Board Appointments: Women's and Men's Routes to the Boardroom. Here co-author, Professor Elisabeth Kelan, named among HR magazine's most influential thinkers, talks to RI Quarterly about the report and what it reveals about the current state of gender diversity in the boardroom.

KEY FINDINGS

- The number of women on boards is rising, but on average, there are still more men: 77% of boards comprise men, and 70% of all new appointees are male.
- Success in gaining roles is largely down to networks and sponsorship rather than through any standard, transparent mechanisms. As a result, men target a wider range of boards, including non-FTSE and private companies, reflecting their generally wider experiences.
- Women tend to have advisers who provide encouragement in their ambitions, while men are more typically sponsored into a position.
- The motivations for men and women wanting to join a board are similar, although women more commonly talk about seeking greater challenges and wanting to develop themselves through NED roles. Instead, for men, the interest is in the chair, in the power and status that the role confers.
- There is no clear connection between a particular career background and the likelihood of success in seeking an NED role, but previous board experience is a crucial credibility factor for women.

Q&A

The report suggests that women are looking to develop themselves through NED roles. Does this suggest that the corporate pipeline is blocked to women and that NED roles are giving them a way to gain experience and climb the ladder?

One interpretation of the research is that women cannot see themselves advancing in corporate jobs, and becoming an NED is a great way to advance a career outside the traditional executive pipeline. It certainly helped that there was a lot of discussion around women on boards and that this raised women's aspirations for those roles. The research, however, also shows that the most desired candidates for board roles are those who have previously held CEO positions. In other words, the best way to become an NED is prior experience as a CEO.

One key takeaway from your report was that while there has been a steady increase in the number of women on FTSE100 and FTSE250 boards the processes and key mechanisms of board appointments are different for women and haven't fundamentally changed. How much is this a problem?

It has been extremely helpful to have this scrutiny to increase the number of women on FTSE100 boards. What our report shows is that the board appointment process is still very much a black box and the mechanisms of becoming a board member are not as transparent as they should be. The focus on women on boards is helping to open the black box of board appointments, but more work needs to be done to ensure greater transparency in this process.

The report also suggests that the motivations for wanting to join a board are similar for men and women but that methods to securing a position differ. Is this a legacy situation or do men and women simply operate differently?

We found that the underlying rationale for wanting to be on a board was similar between men and women, but that they would articulate this aspiration differently. We noticed that women were 'leaning in', possibly following the advice of Facebook COO Sheryl Sandberg. The women

we interviewed presented themselves as super organised and strategic networkers. By contrast, men were often 'leaning back'. They would not say that they are actively looking for NED roles. Instead they often talked about casual conversations that they had in private members' clubs over a glass of whiskey and how this lead to an NED role. This indicates that the mechanisms of finding board roles are gendered.

Although the report also highlighted that while there was little difference between the genders in terms of ambition, the talk about what men and women wanted from NED roles showed differences. How do you explain this?

In many ways our interviewees provided rather typical accounts of how women and men are supposed to answer questions. For men, aiming for power and status is still more accepted whereas women would talk about developing themselves through board roles. As a society, we are still uneasy with women claiming hard power and status and equally with men talking about lofty self-development. What the interviewees were repeating to us were socially accepted forms of articulating ambition. And those are gendered.

Did any of the results from this study or your other work on board gender diversity and the nominations process surprise you?

It is often suggested that because the percentage of women on FTSE100 boards has increased, nothing more needs to be done. There is also a growing sentiment that white, middle-aged men are now disadvantaged. In fact, many men in our study reasoned that they did not find a board role because they are men. I find this most surprising. Firstly, our report showed that during the period under investigation men enjoyed the lion's share of board appointments. But secondly, only 26% of FTSE100 board positions are taken by women. Are we really happy with that? For me it shows that more work needs to be done not just on boards but also on the executive pipeline.

As a woman (or a man) reading this report what should your considerations be when directing your career towards corporate boards? Which area would you want to see change, or how would you adjust your strategy?

The report provides some pointers on what to focus on and what we learned from speaking to aspiring board members. We also stress, however, that while getting a board role can be a useful and satisfying way to bring your experience to bear, it is not the only way. I would advise against discarding executive roles.

In coming years, there will be an increased focus on gender in the executive pipeline and I would anticipate that we will see some changes regarding female representation in executive roles.

BUILDING MOMENTUM

Following the Davies report, the climate is conducive to increasing the number of women on boards, but the key mechanisms of board appointments have not changed. Networks and sponsors still play a significant role. The report suggests that women do not enjoy the support of high-powered sponsors to the extent that men do. This throws a question mark over sustaining the momentum of women attaining boardroom roles, indicating that more work needs to be done not only at the board level, but also on the executive pipeline. It argues that external pressure is required to change the situation, and that women need to enjoy the same sponsorship set-up as men.

RECOMMENDATIONS

- FTSE boards are more visible, higher profile and attract women, but also pose greater competition. As a result, the report suggests that women need to widen their search to include board roles in various companies.
- Candidates need well-placed sponsors to secure NED roles. Reflecting this, women should focus on sponsors and those individuals who have the power to leverage their own networks.
- This also places the onus on those in a position to sponsor, encouraging them to leverage their networks to support both sexes.

SAY ON PAY: GETTING YOUR VOICE HEARD

In recent years Say on Pay has become a corporate governance and responsible investment buzzword and has been at the forefront of discussions around executive remuneration. At the same time, a growing number of countries are enacting legislation that is designed to give shareholders in public companies a mandatory vote on the compensation top executives receive. The UK has been the flag bearer, legislating on the issue as early as 2002. The 2007-08 global financial crisis crystallised more widespread interest from legislators, investors and the media, developing shareholder concerns about executive remuneration and performance.

We have brought together three papers that examine the issue in depth. The first provides an overview of the status of Say on Pay worldwide. This provides a good basis from which to examine two other papers, one on legislative changes in the UK, asking whether amendments reflect a case of form over substance, and in the case of the final paper, a focused examination of the impact of shareholder scrutiny in the US on executive compensation.

WHAT IS SAY ON PAY?

In their study, Say on Pay Around the World, Randall S. Thomas and Christoph Van der Elst define Say on Pay as being: "a recurring, mandatory, binding or advisory shareholders' vote, provided by law that directly or indirectly through the approval of the remuneration system, remuneration report or remuneration policy, governs the individual or collective global remuneration package of the executives or managing directors of the corporation."

WHY IS IT PERCEIVED AS BEING NECESSARY?

The authors argue that it has long been a shareholder complaint that senior executives are overpaid, irrespective of their performance. Historically, investors have been largely powerless to act, but measures are increasingly being sought to gain greater influence over directors' compensation decisions. One such means that has gained increasing traction is Say on Pay.

INSTITUTIONAL CONTEXT

In countries where corporate ownership is dispersed (typically, Australia, the UK and US), supporters of Say on Pay argue that shareholders are well placed to monitor management and so reduce the agency costs of the separation of ownership and control in public companies. The line of argument continues that institutional investors will overcome problems associated with collective action, more fully assess corporate performance and evaluate proposed pay packages. In turn, the idea is that boards respond better through their engagement with investors, and are more mindful of showing restraint in the compensation it awards top executives.

In the case of countries were ownership is concentrated (such as Belgium, Germany, the Netherlands and Sweden), the situation is more nuanced. There is already close monitoring of executive pay levels thanks to the presence of controlling shareholders.

The authors argue the need for Say on Pay in this scenario arises from changes including:

- increased ownership dispersion at larger public companies creating a need for a new monitor of executive pay
- strong support of such legislation by foreign institutional investors whose ownership interests in EU-based firms has increased dramatically in recent years
- social pressures against rising levels of income inequality
- political responses by left-leaning parties to these social pressures by the introduction of Say on Pay legislation
- the presence of important state-owned enterprises in some of these countries that give politicians an important role in setting executive pay.

BACK

IMPACTS OF SAY ON PAY

Thomas and Van der Elst point out that these impacts vary considerably reflecting each country's different business culture, but broadly, there are five general conclusions about the impact of Say on Pay, namely:

1. Where Say on Pay votes are held, shareholders typically support pay levels and policies by very wide margins.
2. The recommendations of third-party voting advisors carry a lot of weight and can dramatically impact the vote's outcome.
3. Say on Pay's strongest effect has been on companies showing poor performance but with relatively high levels of pay.
4. In instances where companies receive low levels of voter support, directors often contact investors to better explain their policies, which in turn gives shareholders greater input on pay issues.
5. Finally, Say on Pay appears to have little long-term impact on executive pay levels.

TRENDS IN SAY ON PAY

Taking the 2011 proxy season in the US as their research material, the authors identified several clear trends. They discovered that shareholders showed strong support for existing pay practices at most firms. In the case of just 1.6% of times, management proposals were voted down. Shareholder votes correlated strongly with company share returns and CEO pay. Finally, where third-party advisors made negative Say on Pay recommendations, many companies modified their disclosure filings or changed their pay practices , sometimes retroactively, in an attempt to secure investor support.

Finally, where third-party advisors made negative Say on Pay recommendations, many companies modified their disclosure filings or changed their pay practices , sometimes retroactively, in an attempt to secure investor support.

PROS AND CONS

Proponents of Say on Pay argue that the legislation has an impact on shareholder value, pointing to figures suggesting if Say on Pay proposals receive more than 50% shareholder approval, the company experiences an abnormal return of 2.4% relative to those where such a vote fails.

It is also argued that Say on Pay both monitors and incentivises CEOs to deliver better performance through the provision of a clear mechanism for shareholders to voice their opinions.

Alongside this, a case can be made that Say on Pay has focused management more clearly on the concerns of shareholders, increased shareholder participation in corporate governance, and opened lines of communication between management and shareholders over the key issue of executive compensation.

DIFFERENCES IN SAY ON PAY

The report highlights several key differences between the Say on Pay model in these countries. The first issue relates to the composition of companies and existing regulation of the board, which changes across countries and regions. Timelines can also be different; in the UK, shareholders vote on past remuneration schemes while in Sweden they consider the future of corporate pay. In the US, voters set the individual compensation package for directors, while in Sweden they advise on remuneration policy. In most countries, the way the shareholders vote serves to advise the board of directors in its development of appropriate incentivising schemes for executive directors, but in some remuneration policy is bindingly set at the AGM. There are also differences on whether it is individual or group pay over which shareholders has a say. Finally, timeframes are different, ranging from annual consideration of pay, to once every three years (the US) and longer (the Netherlands).

As a result, these differences complicate the choices that policy makers face, both in individual countries but more collectively. Thomas and Van der Elst use the example of attempts that have been made to develop a Europe-wide Say on Pay regime.

Yet still, these issues aside, Say on Pay is being adopted. Part of this must reflect the impact of the global financial crisis, following which investors have become more critical of high executive pay packages at firms that are not performing well. In this respect, Say on Pay provides investors with a means by which they can draw attention to pay-related concerns.

Thomas and Van der Elst argue that the institutionalisation of stock ownership is also having a significant impact. Many of these investors are either legally bound or want to actively use their voice in the investee companies. They expect that as foreign share ownership levels rise so will calls for Say on Pay voting.

OUTLOOK FOR SAY ON PAY

There is some debate among the three papers over the outlook for Say on Pay. Initial research appears to suggest that it has had little or no impact on executive compensation levels. Research is however now making different or more focused comparisons and turning up some interesting results.

The authors cite research showing that across 39 sample countries, Say on Pay legislation is associated with lower levels of CEO remuneration. Furthermore, the study suggests that the companies that are most affected are those performing poorly. The study also finds that where Say on Pay has been introduced there are lower internal pay inequalities within firms as well as a higher value for the firm itself. The authors argue that most senior corporate figures prefer this 'internal' corporate solution to the possibility of direct regulation in the sector.

On the back of this, Thomas and Van der Elst suggest that it is plausible that policy moves will be made "to implement binding shareholder votes in Say on Pay legal regimes".

The conclusions of the second paper, *Does Shareholder Scrutiny Affect Executive Compensation?*, by Mathias Kronlund and Shastri Sandy, suggest that the results of Say on Pay are more ambiguous.

The authors contend that while it is possible that added shareholder scrutiny may make compensation practices more efficient, this heightened scrutiny may result in less efficient compensation practices. The examples that the authors give are the use of 'one-size-fits-all' pay practices, which fail to consider each firm's unique circumstances. Kronlund and Sandy also suggest that heightened shareholder scrutiny may prompt firms to improve the 'optics' of pay (i.e., packages that look better to shareholders), but are in fact less efficient. Additionally, they argue that in instances where firms already engage in poor pay practices (including over-payment) increased scrutiny may exacerbate the problem as the firm attempts to mask its procedures.

As a result, this paper has a different focus. It doesn't seek to examine the overall effect of Say on Pay, but instead its authors have measured within-firm differences of pay across years among firms that have non-annual voting. By doing so, the report aims to answer the question of whether intensified shareholder scrutiny matters for pay. The authors argue that it is far more revealing to consider how an executive is paid in years when a vote is expected against those years where there is no vote.

The results of this research reveal that when firms face greater scrutiny they make changes to their executive pay packages. Typically, salaries are lower, but equity compensation is higher. Alongside this, the report suggests that firms make greater use of pensions (an area that typically receives less shareholder scrutiny) in years where there is a vote. During these periods, they also reduce or eliminate compensation practices, such as golden parachutes, which activist investors are likely to oppose. Consequently, in years where there is greater scrutiny, the report suggests that the net income of senior executives is likely to be higher because equity compensation has been raised.

In systems (notably the US) where Say on Pay voting isn't annual, Kronlund and Sandy suggest that Say on Pay is enabling firms to strategically shift pay across years to ensure that executives are compensated in the same way as before the legislation came into effect. Although Say on Pay rules in the U.S were designed not to place too much burden or cost on firms, the report argues that this needs to be weighed against the cost of enabling firms' strategic behaviour, which may be distorting pay. Overall, the authors conclude that scrutiny matters and has a predictable influence on remuneration packages at the executive level.

This theme of firms seeking to distort pay while still seeming to abide by the Say on Pay rules is at the heart of the final paper, *Form Over Substance? An Investigation of Recent Remuneration Disclosure Changes in the UK*. Authors Aditi Gupta, Jenny Chu and Xing Ge consider new regulations that came into the force in the UK in 2013. These were designed to: "Restore a stronger, clearer link between pay and performance, reduce rewards for failure, and promote better engagement between companies and shareholders." This paper argues however that they are not as effective as regulators had envisaged.

The paper samples FTSE 100 companies from 2011-2013 to first describe voluntary and mandated disclosure requirements. From this, the authors conclude that where companies voluntarily disclosed executive compensation they focused

Overall, the authors conclude that scrutiny matters and has a predictable influence on remuneration packages at the executive level.

on presentation over substantive changes, reporting information in a new format rather than providing new content. In doing so, this report mirrors Kronlund and Sandy's assertion about companies' use of 'optics'.

In cases of mandatory disclosure, Gupta, Chu and Ge discovered that this was subject to management discretion because firms could self-select their employee comparator groups.

Furthermore, following the introduction of the new legislation, the authors could find no stronger link between CEO pay and the firm's performance nor any attempts to curtail the degree to which CEO pay was in excess of the firm's average salaries. This is important because one of the key changes that the regulations introduced was the requirement for firms to disclose the percentage change in pay for CEOs and employees. The report reveals that not all employees were included in comparisons. Furthermore, figures show that although CEO cash pay was not growing out of line of workers' salaries, CEOs enjoyed an increase in benefits of almost six times that of employees. The comparisons did not include equity-linked pay (a large component of executive pay), prompting the authors to suggest that reported figures for CEOs "are likely to be biased downwards".

Alongside this, the paper reveals that during the period under review not only was there no improvement in the change in total shareholder returns and change in the face of new regulation, but that firms that had higher prior advisory dissent votes on pay continued to give out high executive remuneration. Taken together, the authors conclude that it is questionable whether the UK's new enhanced disclosure regime has been effective.

The authors caveat that the sample size for their research was small and that they based their assessment on the first year that the regulations came into force. They conclude however, that even following the introduction of regulations, pay-performance asymmetries remain.

The PRI encourages active ownership, and suggests that shareholders get informed and get involved in countries where they have an opportunity to vote on pay. We welcome the required vote on remuneration policy and remuneration report (PRI policy briefing: EU Shareholder Rights Directive 2016). As we have seen from these three papers, there is still room for improvement. Until this happens, these types of regulations cannot be used to their full potential, creating a situation whereby shareholders continue to have concerns over executive remuneration that aren't being fully addressed. Positively, legislators are taking notice and taking action, more countries are mandating Say on Pay, researchers are highlighting some of the deficiencies of the existing systems, and institutional investors are getting involved, bringing a strong voice to the debate. With these pressures, and through research that is raising awareness of existing shortfalls, we hope that Say on Pay, already a powerful tool for investors, can be used to its full potential.

PROFESSOR SUSAN VINNICOMBE ON THE DAVIES COMMITTEE

WOMEN ON BOARDS DAVIES REVIEW FIVE YEAR SUMMARY OCTOBER 2015

There are more women on FTSE 350 boards than ever before, with representation of women more than doubling since 2011 - now at 26.1% on FTSE 100 boards and 19.6% on FTSE 250 boards. We have also seen a dramatic reduction in the number of all-male boards. There were 152 in 2011. Today there are no all-male boards in the FTSE 100 and only 15 in the FTSE 250.

"It was a very successful campaign." That is how Professor Susan Vinnicombe describes the outcome of the [2015 Davies Report.] She points out that in 1999 there were just 6.7% of women on FTSE100 boards. By 2010, this had incrementally risen to 12.5% when Lord Mervyn Davies was approached to do an independent review. His final report aimed to double this figure, something that it more than achieved, with the total number standing at 26.1% by the end of 2015.

This is all the more impressive given that to achieve this target, the UK needed to maintain a healthy turnover of directors at FTSE100 boards and that women needed to secure one-third of all new appointments to the board. Alongside this, Professor Vinnicombe is keen to underline how much the UK has achieved using voluntary means. At the time when Lord Davies was approached, MEP and vice-president of the European Commission (2010 – 2014), Viviane Reding, was pushing for European countries to regulate on this issue and proposing a target of 40%.

Professor Vinnicombe describes her time sitting on the Davies Committee with some relish describing it as "an amazing force for change". She makes a number of references to the commitment of the individuals, particularly Davies, whom she describes as: "super committed, very open, very willing to listen to challenges, and [someone who] put a huge amount of effort into promoting it and challenging other chairmen." This highly effective engagement strategy resulted in the UK leading "the most inclusive initiative on pursuing gender diversity" and now being ranked sixth in the world in terms of gender diversity in the boardroom.

She argues that while the UK largely decided against the use of mandatory targets, regulation that was introduced in the form of 'narrative reporting' (all FTSE100 companies had to report the numbers of women at different levels in their company) and the prospect of possible regulation played a key role.

"It was not a huge thing but it was certainly symbolic and we did find that there was a big increase in how seriously companies took it and how much information they gave."

SETTING THE BAR HIGH

With this in mind, the situation would appear to be moving in the right direction. The Davies Committee's successor, the team led by Sir Philip Hampton and Dame Helen Alexander, released its own recommendations last November. These set the bar even higher, calling for the number of women at board level in FTSE100 and FTSE250 to be at least 33%, with an additional target of the same percentage for women at the two levels below the board. Professor Vinnicombe describes this as an ambitious target, pointing out that the dynamic that needs addressing is different and that the UK is actually losing women at the levels below the board.

It is also notable that most of the increase in women in the boardroom has come from a rise in NED roles. The shape of the board has changed. As Professor Vinnicombe highlights, in 1999, it was roughly 50/50 executive director and NED, a number that has altered to more than 60% NED roles. She argues that while opportunities for women have opened up, there are still very few female executive directors (currently seven in the FTSE

100). Alongside this, few women move beyond their NED roles into senior executive positions, underlining the glass ceiling that remains in the boardroom. In essence, while progress is being made on diversity, serious challenges remain.

THE NEED FOR SHARED ENGAGEMENT

So, what's the best way to effect further and beneficial change? Professor Vinnicombe points out that the issue doesn't need explaining and that most senior executives understand the benefits of greater board diversity. The problem comes where there is a lack of engagement and a failure to commit to doing something.

In this respect, reaching out to all stakeholders is something that Professor Vinnicombe regards as vital. She talks about the trend of women being over-mentored and under-sponsored. As she points out, "women don't need fixing", but they do need the support of senior male board members. Sponsorship, she argues, "should be a shared responsibility". With this in mind, it is the senior male board members that she wants to see greater engagement with, arguing that without it, and without their better understanding of the challenges that women face in the workplace, nothing will change.

> Women are over-mentored and under-sponsored. They don't need fixing, but the support of senior board members.

Pursuing this point, Professor Vinnicombe calls for greater transparency, stronger reporting and a real commitment to action, ideally quantifiable goals.

INVESTORS FOR EQUALITY

Another area where Professor Vinnicombe would like to see more action and engagement is through the work of investors. She reveals that certainly in the case of the UK, investors have been the one community that has failed to engage to the degree that they could have done with both the Davies Committee and Hampton and Alexander team. She points to the US where investors have created more momentum for change through being more active at AGMs, where they've asked questions about diversity and related issues. Professor Vinnicombe argues that if more investors could challenge companies and become more engaged with them on issues like boardroom diversity, then this would be very helpful, regarding the pressure that they can effect as being a "key catalyst". She concedes however that while there are signs that shareholders are engaging more, there is a still a long way to go.

> Investors can be a key catalyst for bringing about board diversity

CREATING MEANINGFUL CHANGE

Ultimately Professor Vinnicombe argues that if companies aren't transparent and made to account for gender diversity, we aren't even at the starting blocks. The more that investors do, the more attention the issue will receive, increasing the likelihood of meaningful change.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org